



a place of mind

THE UNIVERSITY OF BRITISH COLUMBIA

# FACULTY PENSION PLAN 2014 Year In Review



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# Message from the Chair

Dear Members:

We are pleased to present the Faculty Pension Plan's (FPP) Annual Report: *2014 Year in Review*.

The year 2014 proved favourable for returns in most asset classes despite the divergence of economic growth across different geographic regions. The bond market in particular surprised many with high single-digit returns resulting from decreasing interest rates. This was counter to most people's expectation that interest rates would rise during the year. Despite the U.S. ending their supportive monetary policies in 2014, the U.S. stock market continued to lead with a return of almost 24%. The Canadian stock market, hurt by falling oil prices, still managed a respectable return of over 10% for the year.

The FPP offers members their choice of five different investment options plus Guaranteed Investment Certificates (GICs) ranging from 1 to 5 years. The majority of the members' assets (over 80%) continue to be invested in the Balanced Fund option. This option is broadly diversified by asset classes (Stocks, Bonds and Real Estate) and utilizes twelve different investment mandates to implement the Fund's asset mix policy. The Balanced Fund had another strong year in 2014 with a return of 10.8%, net of fees. These returns were a function of both strong Foreign and Canadian equity returns and the bond component also contributed a surprisingly strong performance for the year. I encourage you to read the Market Commentary section in this Annual Report for more details about the returns on all of the Plan's fund options.

There were no significant changes made to the FPP fund options in 2014. The Asset Mix Study that was initiated in 2013 was completed in 2014 with no material asset mix changes being recommended. Just subsequent to year end, the Hedge Fund was removed from both the Balanced and Foreign Equity Funds due to continuing underperformance. This Hedge Fund allocation was redistributed equally to the two Global Equity managers in both of the affected fund options.

Dr. Joanne Emerman and Dr. Kenneth Carty were reappointed to the board of trustees for a four-year term, effective January 1, 2015 and I would like to thank them for their continuing support. Dr. Emerman has been a trustee since 2007 and Dr. Carty since 2013.

Sun Life Financial has been selected as the new recordkeeper for the FPP. You will continue to receive full service from the Pension Administration Office and our relationship with Sun Life will increase administrative efficiencies, reduce operational risk and bring innovative and established technology to the FPP.

I look forward to meeting many of you at the Pension Forum on May 20 at the Marine Drive Residence. There will be information booths available and there will also be short presentations from the FPP Chair and management. As well, Sun Life will demonstrate our new member website and the online resources that are available to members.

In closing, I would like to thank the other board members for their service and commitment over the past year. I would also like to thank the Pension Administration Office staff for their dedicated efforts. I look forward to working with them in 2015.

Yours truly,





# Highlights

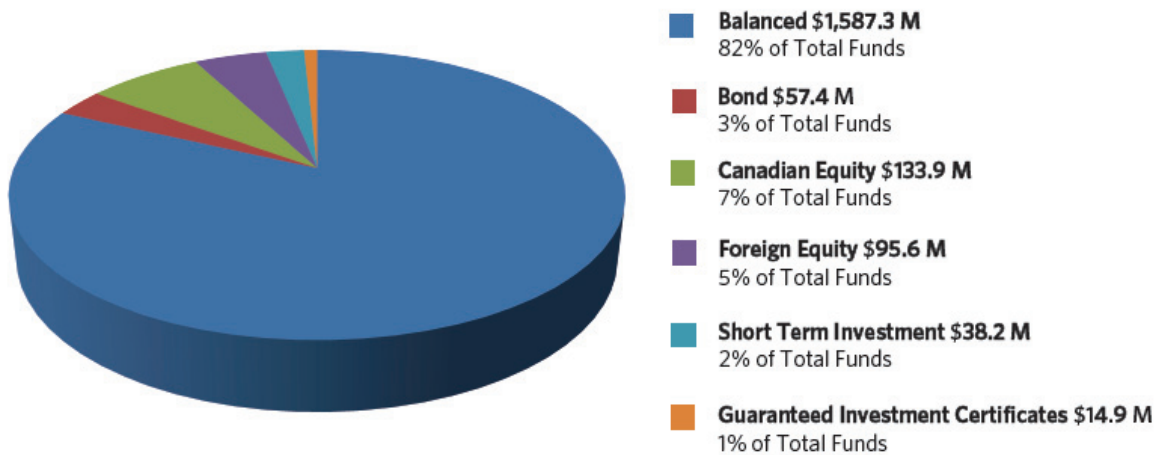
The following are highlights for the Faculty Pension Plan in 2014:

- As at December 31, 2014, the market value of the total FPP funds was approximately \$1.9 billion.
- As illustrated in our membership statistics, the Plan's membership has grown considerably over the last decade. In particular, the number of retirees in the Plan has more than doubled since 2004.
- It was a busy year for our Member Services team, who held the following workshops in 2014:
  - Three "Faculty Pension Plan 101" new member workshops at the Vancouver campus and one at the Okanagan campus.
  - Six "Understanding Your Retirement Income Options" seminars at the Vancouver campus and one at the Okanagan campus.
  - Our Executive Director of Investments also gave a presentation on the Plan's investments at the Vancouver Campus as part of the Faculty Association Financial Lecture Series.
- In 2014, the UBC FPP Board of Trustees selected Sun Life Financial as the new recordkeeper for the Plan for its depth of knowledge, service excellence, tools and technology. At the end of June 2015, the FPP will move to a co-administration model administered by the UBC Pension Administration Office and Sun Life Financial.
- Since 2013, senior management from both the Staff and Faculty Plans have worked together on a succession plan for the UBC Pension Administration Office. In 2015, the Executive Director of Operations for the UBC Faculty Pension Plan and the Executive Director for the UBC Staff Pension Plan will both retire. A succession plan for these two retirements was presented and approved by the two Pension Boards in 2014. On the recommendation of the two Executive Directors, the Pension Boards have taken this opportunity to restructure the Pension Administration Office. Instead of two Executive Directors, one for each UBC pension plan, there will be one Executive Director, Pensions, and one Associate Director, Pensions for both pension plans.

# Financial Statistics

All figures are based on the Plan's audited 2014 Financial Statements

## Market Value of the Funds as at December 31, 2014



## Market Value of the Funds for last five years

All figures as at December 31

	2010	2011	2012	2013	2014
<b>Balanced</b>	\$1,115,397,884	\$1,123,219,589	\$1,246,829,399	\$1,432,622,204	\$1,587,262,145
<b>Bond Fund</b>	\$64,874,459	\$82,320,645	\$78,343,673	\$53,817,936	\$57,369,657
<b>Canadian Equity Fund</b>	\$108,117,922	\$96,602,910	\$106,331,985	\$126,022,267	\$133,862,533
<b>Foreign Equity Fund</b>	\$37,180,319	\$36,881,169	\$45,873,527	\$79,281,556	\$95,616,095
<b>Short Term Investment Fund</b>	\$51,436,859	\$67,297,338	\$51,364,549	\$41,860,713	\$38,246,438
<b>Guaranteed Investment Certificates*</b>	N/A	N/A	\$14,980,211	\$14,510,620	\$14,948,646
<b>Total Market Value of Funds</b>	\$1,377,007,443	\$1,406,321,651	\$1,543,723,343	\$1,748,115,296	\$1,927,305,514

\*GICs were introduced into the FPP in May of 2012

## Financial Statistics cont'd

### Cash Flow for last five years

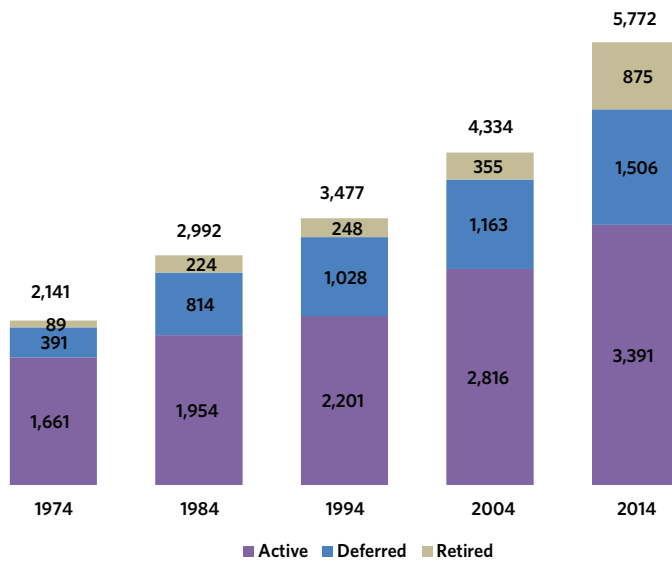
All figures as at December 31

	2010	2011	2012	2013	2014
<b>Cash Flow</b>					
Contributions					
Employer	\$33,047,817	\$34,511,247	\$35,227,042	\$38,017,045	\$38,373,562
Employee	\$16,673,142	\$17,385,797	\$17,489,426	\$19,135,063	\$18,997,745
Voluntary	\$497,862	\$607,367	\$639,088	\$715,204	\$851,428
Transfers-in from other Registered Plans	\$3,071,241	\$3,889,324	\$4,370,025	\$8,405,522	\$6,284,112
Retirement Benefits Paid	\$20,502,956	\$24,830,204	\$23,039,693	\$29,042,231	\$37,728,149
Withdrawals and Transfers-out	\$20,259,603	\$27,008,905	\$26,088,753	\$37,020,072	\$34,572,366

# Membership Statistics

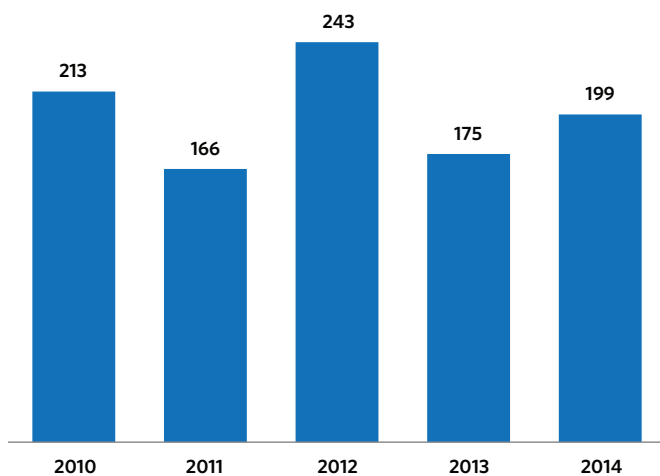
## Number of Members as at December 31

The number of retirees in the Plan has more than doubled since 2004.



## New Enrollments as at December 31

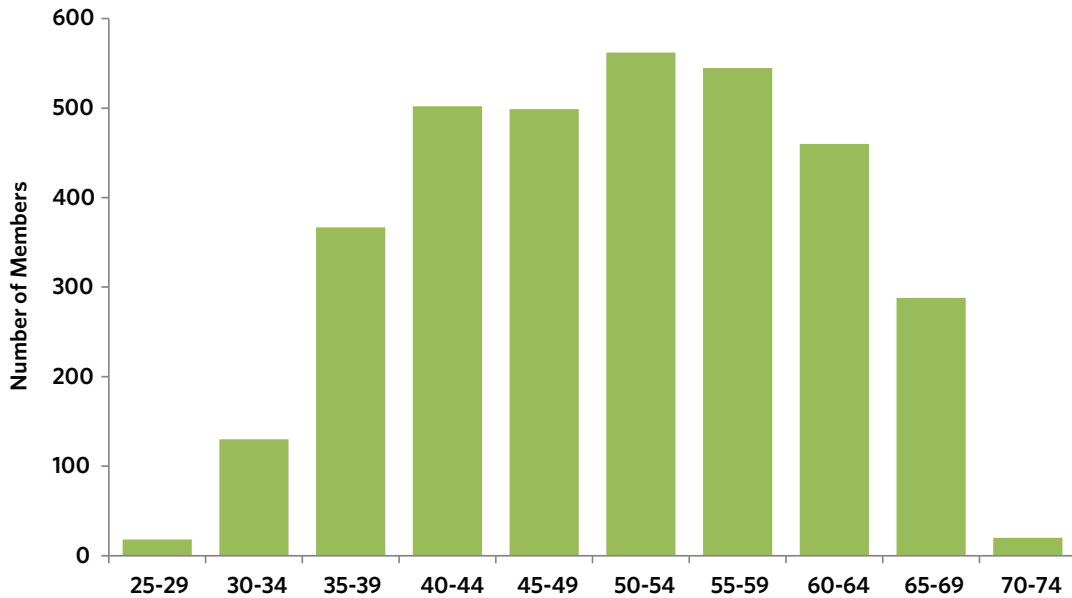
Enrollments into the Plan in 2014 increased about 14% from 2013.



## Membership Statistics cont'd

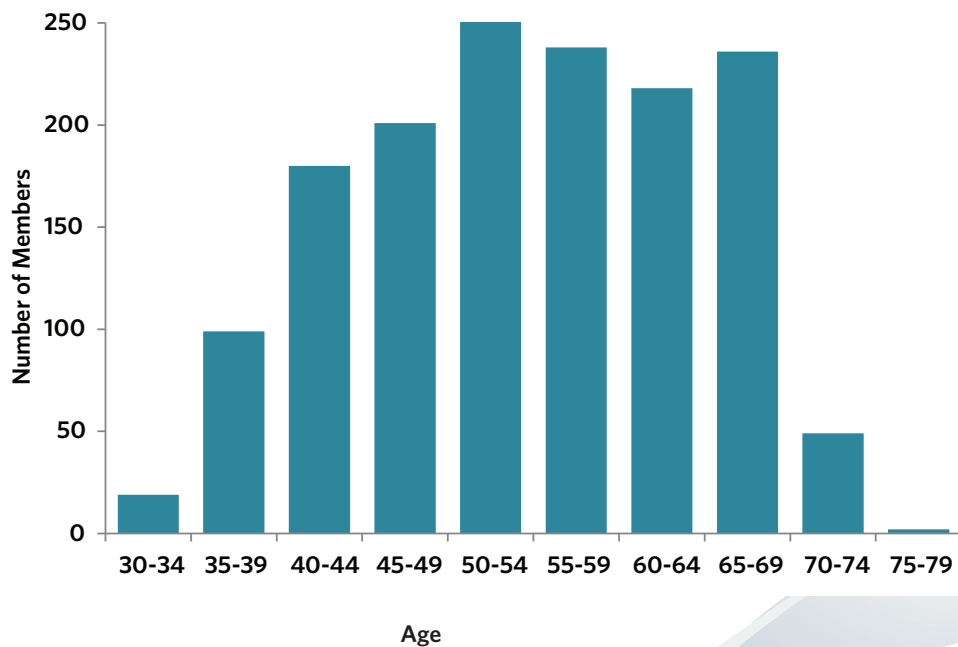
### Active Members by Age Group as at December 31, 2014

The graph below shows that the majority of Active members are between age 35 and age 64. The average and median ages of Active members are 51.3 years and 51.6 years respectively.



### Deferred Members by Age Group as at December 31, 2014

The graph below shows that the majority of Deferred members are between age 40 and age 69. The average and median ages of Deferred members are 54.7 years and 55 years respectively.

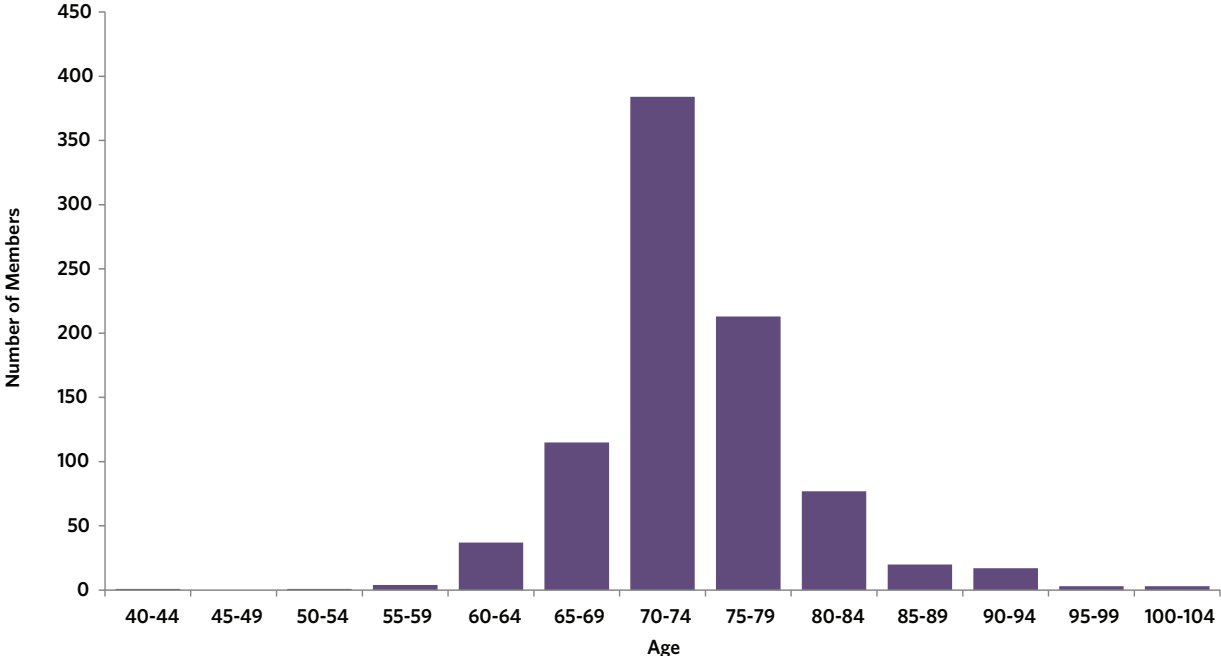




# Membership Statistics cont'd

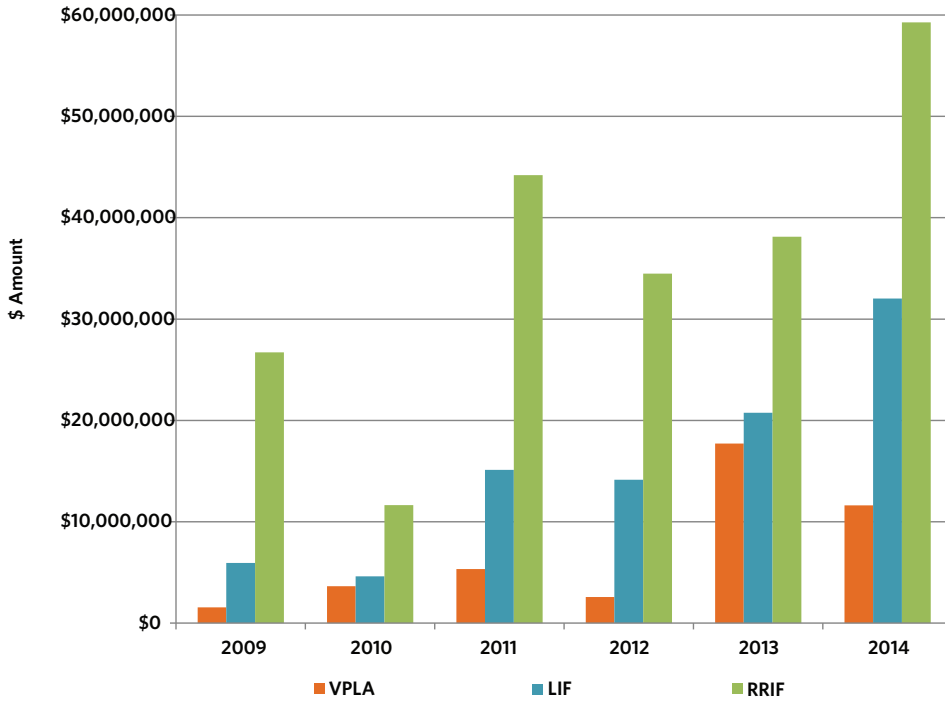
## Retired Members by Age as at December 31, 2014

As of December 31, 2014, there are 875 retired members who have elected one or more retirement options from the Plan. Of the 875 members, approximately 49% are receiving UBC FPP RRIF-Type Payments, 39% are receiving UBC FPP LIF-Type Payments, and 45% have elected a UBC FPP Variable Payment Life Annuity option. Members may choose to elect more than one retirement option; therefore, some members have a combination of retirement options from the Plan. The average and median ages of Retired members are 74 years and 73.5 years respectively.



## Where new retirees are putting their money

The following two graphs show where new retirees are putting their money within the FPP retirement options (Variable Payment Life Annuity, LIF-Type Payment, and RRIF-Type Payment).





# Market Commentary

The various Funds' gross returns (before fees) are used in the Market Commentary for consistent comparison to other similar funds. The Faculty Pension Plan website provides these returns both before and after fees.

## Background

The past year witnessed strong returns in most stock markets, largely supported by accommodative monetary policies (i.e. low interest rates). Of surprise to many was the decrease in bond interest rates which translated into strong returns for the bond market, especially for longer term bonds. These lower rates were partly due to the large drop in yields in Europe and also an increase in demand while supply of new issues fell. The U.S. ended its Quantitative Easing (QE) program as Japan was ramping up their QE program with Europe to follow. Economic results in 2014 remained mixed with varying unemployment, inflation and corporate profitability results reported throughout the year.

## Balanced Fund

Overall, 2014 was another strong year for the Balanced Fund with a return of 11.4% bringing the ten-year return to a very respectable 7.4% per annum. Of particular strength in 2014 were the Foreign and Canadian equity components which returned 16.1% and 10.7%, respectively. Bond returns were surprisingly strong; the Bond Fund was up 9.6% in 2014 as interest rates dropped against most people's expectations. Foreign equities, and in particular the U.S. and certain Pan Asian countries produced the highest annual returns. Canadian equity returns were largely driven by high returns in the Consumer Staples, IT and Health Care sectors.

The Balanced Fund's one-year performance of 11.4% was near the median (55th percentile) relative to a peer comparison of other similar balanced funds. The Fund often underperforms other Balanced funds when stock returns are strong due to the more conservative asset mix profile of the Balanced Fund (i.e. less equity weighting at 50% on average than its peers). Over a ten-year period, the Fund's strong return performance versus other similar balanced funds has ranked in the 22nd percentile while also being in the "least risky" quartile compared to its peers.

An Asset Mix Review with an outside consultant was completed in 2014. This review indicated that the current asset mix of the Balanced Fund was near optimal for the level of risk being assumed, so no major asset mix changes were needed. The 3% allocation to a hedge fund was terminated at the end of 2014 largely due to its continuing underperformance. This 3% allocation was redistributed to the two Global Equity managers.

## Bond Fund

The Bond Fund had a one-year return of 9.6% (up from -3.6% in 2013) as bonds performed very well in 2014 due to decreasing interest rates, which moved down to historically low levels. Longer term, the Fund's gross return is 5.5% per annum over the last 10 years with a low level of volatility.

The Bond Fund's 20% allocation to Real Return Bonds ("RRBs") was a large reason for the Fund's strong results in 2014 as these RRBs returned 13.2% due to decreasing interest rates and their long duration.

## Market Commentary cont'd

Of the two active bond managers with mandates which allow a limited amount of investing in bonds outside of Canada, one surpassed their index benchmarks by a healthy margin while the other did not achieve the index benchmark return. These two managers now represent over 53% of the Bond Fund and over the last five years have performed above the index benchmark return while adding a further level of diversification to the Fund. In 2014, the three active managers were adjusted to more of an equal weighting by increasing the allocation to the two Core Plus bond managers.

The Bond Fund's performance relative to other similar bond funds has been below average over the last five years while the risk level has been below average over the last four years.

### **Canadian Equity Fund**

The Fund posted a strong return of 10.7% in 2014 and is up over 10% per annum over five years now. The ten-year return for this Fund is now a very respectable 9.2% per annum. The Canadian stock market index remains heavily weighted in commodity stocks (i.e. energy and mining companies) which pulled down performance relative to other countries.

The most significant factor affecting the market in 2014 was the large drop in oil prices. The Energy sector makes up 22% of the market index and this sector's return for the year was -4.8%. Whereas, several other industry sectors witnessed 20%+ returns for the year. The smaller oil and gas producers were particularly hurt compared to the large integrated oil companies. Gold stocks also had another weak year as gold prices fell.

The Fund is managed by four different investment firms, each handling approximately 25% of the Fund. Two of the four managers in the Fund significantly outperformed the stock index benchmark for the year while two others failed to achieve the index return for the year. Over five years, the fund is over 2.5% per annum above the index based benchmark, reflecting high value added from our active managers.

Over a ten-year timeframe, the Fund's performance ranks high in the first quartile (i.e. 15th percentile) compared to similar Canadian equity funds, while having a risk profile that is lower than the average peer fund due to its high level of diversification.

### **Foreign Equity Fund**

The Foreign Equity Fund had another very strong return of 16.1% in 2014. Longer term results for this Fund over ten years is 6.3% per annum, which includes the very weak results from the recession in 2008. The Fund was restructured five years ago to include two new managers with active Global equity mandates representing 73% of the Fund, plus one passive U.S. equity-only manager (21% of the Fund) and a 6% allocation to a Hedge Fund. The Hedge Fund (3.8% return in 2014) was terminated at the end of 2014 and its 6% allocation was equally distributed to the two existing Global equity managers.

The U.S. equity manager again had the highest return of 23.9% (41% in 2014) for the year in Canadian dollar terms. The Global equity portion, which makes up the majority of this Fund, also posted strong returns with both managers returning around 14.5% for the year. The depreciating Canadian dollar significantly improved the returns of the foreign equities for the year when these returns are converted back into the Canadian dollar.

The Fund's strong five-year returns (14%) are high first quartile (ranking 14th) while its risk profile is average in comparison to its peer group of similar foreign equity funds. Since the significant restructuring of this Fund in

## Market Commentary cont'd

2010, these relative results have continued to show marked improvement. As well, the ten-year return at 6.3% is now above average in its peer group.

### **Short Term Investment Fund (STIF)**

The STIF's return in 2014 was 1.3%, reflecting the continuing very low interest rate environment throughout 2014. The Bank of Canada's Overnight Rate in 2014 remained at 1% (it was reduced to 0.75% in early January 2015) as the government maintained this historically low rate to provide support for economic recovery. The Fund only invests in very high quality fixed income instruments with very short (i.e. typically 45 days or less) maturities. After netting out the affects of inflation as measured by the Consumer Price Index (1.9% in 2014), the "real return" of this Fund was slightly negative.

# Fund Rates of Return

The following table provides performance results for periods ending December 31, 2014. The absolute returns are compared with returns of composite indices, which reflect the asset allocation of each fund. Relative rankings indicate the investment fund's percentile standing within a universe of comparable funds.

	1 year	3 years	5 years	10 years	Relative Ranking		
	%	%	%	%	(1st percentile is best ranking)		
					1 year	4 years	5 years
<b>Balanced Fund - gross</b> <sup>1</sup>	11.44	11.77	9.64	7.43	55	41	39
Balanced Fund - net <sup>2</sup>	10.86	11.19	9.06	6.90			
Composite Index 1 <sup>3</sup>	11.24	9.85	8.29	6.24			
<b>Bond Fund - gross</b>	9.62	3.33	5.78	5.53	71	89	81
Bond Fund - net	9.28	3.00	5.44	5.23			
Composite Index 2 <sup>4</sup>	9.67	3.02	5.56	5.32			
<b>Canadian Equity Fund - gross</b>	10.72	14.11	10.04	9.15	55	38	28
Canadian Equity Fund - net	10.26	13.62	9.56	N/A			
Composite Index 3 <sup>5</sup>	11.30	10.57	7.54	7.59			
<b>Foreign Equity Fund - gross</b> <sup>1</sup>	16.23	22.80	14.00	6.32	5	14	14
Foreign Equity Fund - net	15.51	22.01	13.22	N/A			
Composite Index 4 <sup>6</sup>	16.05	21.23	13.42	6.25			
<b>Short Term Investment Fund - gross</b>	1.27	1.29	1.14	2.04	19	19	27
Short Term Investment Fund - net	1.09	1.11	0.97	1.87			
Composite Index 5 <sup>7</sup>	0.91	0.98	0.87	1.82			

<sup>1</sup> The gross return represents income from investments, including accrued interest. It also reflects changes in market values during the year.

<sup>2</sup> The net return is the gross return minus investment management and administration fees.

<sup>3</sup> Composite Index 1: 32% FT TMX Bond Universe commencing February 2014, 10% S&P/TSX Capped, 5% S&P/TSX, 5% S&P/TSX 60 Capped, 6% S&P 500, 21% MSCI World Ex Canada, 3% FT TMX 91-Day TB commencing February 2014, 10% CPI + 4% commencing November 2011 (retroactive), 8% FT TMX Real Return Bond commencing February 2014

<sup>4</sup> Composite Index 2: 80% FT TMX Bonds Universe and 20% FT TMX Real Return Bond commencing February 2014

<sup>5</sup> Composite Index 3: 25% S&P/TSX, 50% S&P/TSX Capped, 25% S&P/TSX 60 Capped

<sup>6</sup> Composite Index 4: 73% MSCI World Ex Canada, 21% S&P 500, 6% FT TMX 91-Day TB commencing February 2014

<sup>7</sup> Composite Index 5: DEX 91-Day TB Index as of February 2011, FT TMX 91-Day TB Index commencing February 2014

# Investment Managers' Rates of Return

The following table details each manager's performance for the periods ending December 31, 2014. The trustees and management monitor the performance of each of the managers and meet with them regularly to review their performance. Measured against comparable managers, each manager's relative performance is expected to rank in the top third. The managers are also expected to achieve returns greater than their index-based benchmark over a four-year period.

Asset Class	Manager	Gross Rates of Return (%) <sup>1</sup>				
		For periods ending December 31, 2014				
		Index-based Benchmark	1 year	2 years	3 years	4 years
<b>Canadian Equity</b>						
	Connor, Clark & Lunn Q-Growth Fund		11.64	18.37	15.08	9.45
	S&P/TSX Composite Index		10.55	11.77	10.22	5.15
	Guardian Capital LP		13.15	13.55	13.62	7.64
	Leith Wheeler Investment Counsel		9.11	16.64	16.11	10.58
	S&P/TSX Capped Composite Index		10.55	11.77	10.22	5.15
	PCJ Investment Counsel		8.91	12.95	11.49	4.80
	S&P/TSX Capped 60 Index		12.27	12.76	11.18	5.72
<b>U.S. Equity</b>						
	BlackRock Inc. - U.S. Equity Index		23.87	32.21	25.59	20.00
	S&P 500 Index (Canadian \$)		23.93	32.32	25.70	20.07
<b>Non-Canadian Equity</b>						
	MFS		14.37	25.66	24.32	17.38
	JP Morgan		14.55	25.47	22.06	14.11
	MSCI World x Canada (Canadian \$)		15.16	25.63	21.74	15.24

*continued on next page*

## Investment Managers' Rates of Return cont'd

Asset Class Manager Index-based Benchmark	Gross Rates of Return (%) <sup>1</sup>			
	For periods ending December 31, 2014			
	1 year	2 years	3 years	4 years
<b>Hedge Fund</b>				
BlackRock Inc. - Global Market Selection Fund	3.76	4.08	3.58	1.48
FT TMX 91-Day Treasury Bill Index	0.91	0.96	0.98	0.98
<b>Fixed Income</b>				
AllianceBernstein	9.57	4.05	4.43	5.59
PIMCO Canada Corp.	8.33	3.87	4.75	5.16
State Street Global Advisors	8.79	3.65	3.62	5.06
FT TMX Canada Bond Universe Index	8.79	3.68	3.65	5.13
BlackRock Inc. - Real Return Bond Fund	13.31	-0.74	0.46	4.66
FT TMX Canada Real Return Bond Index	13.18	-0.81	0.40	4.61
<b>Real Estate</b>				
bcIMC - Realpool	8.18	8.72	11.26	12.79
Bentall Kennedy	4.76	6.70	8.34	9.48
CPI + 4%	5.95	6.30	5.81	5.93
<b>Money Market</b>				
bcIMC - Short Term Fund	1.25	1.29	1.28	1.27
FT TMX 91-Day Treasury Bill Index	0.91	0.96	0.98	0.98

<sup>1</sup> The gross returns reported are time-weighted annualized returns. It is not possible to simply sum the returns for individual managers to obtain a fund return.





# Plan Overview

The University of British Columbia Faculty Pension Plan, approved by Canada Revenue Agency (CRA), became effective July 1, 1967 to provide retirement, termination and death benefits for members of the academic and administrative executive staff of the University.

As a defined contribution (money purchase) pension plan, both plan members and the University or other participating employers make contributions to the member's account, which together with investment earnings, is ultimately used to provide benefits at retirement, at termination of the member's employment, or upon the death of the member. The pension plan is registered federally under the Income Tax Act; Registration No. 0211987 and provincially under the British Columbia Pension Benefits Standards Act, which became effective January 1, 1993; Registration No. P085435.



# Board of Trustees

as at January 1, 2015

The Faculty Pension Plan is administered by a Pension Board composed of eight Trustees. Four Trustees are elected by and from the members of the Pension Plan and four are appointed by the University. The powers and duties of the Pension Board are outlined in detail in the Plan's Trust Agreement and the University has no interest, right, or title to pension monies after transfer to the Pension Board.

Appointed by the Board of Governors	Elected by Plan Members
<p><b>Mr. Joost Blom, Chair</b>            Professor, Faculty of Law            Term expires December 31, 2016</p>	<p><b>Dr. Joy Begley</b>            Associate Professor, Sauder School of Business            Term expires December 31, 2017</p>
<p><b>Dr. Joyce Boon</b>            Associate Professor Emeritus, Biology, UBC Okanagan            Term expires December 31, 2016</p>	<p><b>Dr. Robert L. Heinkel, Vice-Chair</b>            Professor, Sauder School of Business            Term expires December 31, 2015</p>
<p><b>Dr. R. Kenneth Carty</b>            Professor Emeritus, Political Science            Term expires December 31, 2018</p>	<p><b>Dr. Kai Li</b>            Professor, Sauder School of Business            Term expires December 31, 2017</p>
<p><b>Dr. Joanne Emerman</b>            Professor Emeritus, Cellular &amp; Physiological Sciences            Term expires December 31, 2018</p>	<p><b>Mr. Vijay Verma</b>            Researcher Emeritus, TRIUMF            Term expires December 31, 2015</p>



# Management & Staff

<b>Mike Leslie</b> Executive Director, Investments	<b>Cheryl Neighbour</b> Executive Director, Operations
<b>Diana Iampietro</b> Manager, Faculty Pension Plan	<b>Nathan Nie</b> Senior Financial Officer
<b>Lorraine Heseltine</b> Member Services Specialist	<b>Maricres De Leon</b> Pension Plan Accountant
<b>Lily Lee</b> Member Services Associate	<b>Andrea Gesner</b> Pension Systems Manager
<b>Louise Mah</b> Pension Clerk	<b>GV Fragante</b> Systems Analyst
<b>Shirley Lim</b> Project Coordinator	<b>Helena Huynh</b> Systems Analyst
<b>Claudia Chan</b> Office Administrator	<b>Kathy Pang</b> Communications Manager
<b>Ron Fong</b> Office Administrator	<b>Chelsey Maher</b> Communications Assistant



## Service Providers

- **Aon Hewitt:** Actuary
- **Deloitte:** Auditors
- **CIBC Mellon:** Custodian
- **BNY Mellon:** Performance Measurement
- **Lawson Lundell LLP:** Legal Counsel
- **Sun Life Financial:** Record keeper for LIF and RRIF-Type Payment accounts